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TO RUEHC/SECSTATE WASHDC IMMEDIATE 9219
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE
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RUEHIN/AIT TAIPEI 1594
RUEHBJ/AMEMBASSY BEIJING 6278
RUEHJS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUEHBY/AMEMBASSY CANBERRA 9751
RUEHHK/AMCONSUL HONG KONG 4782
RUEHUL/AMEMBASSY SEOUL 2729
RUEHKO/AMEMBASSY TOKYO 3436
RUEHWL/AMEMBASSY WELLINGTON 3438
RHHMUNA/USCINCPAC HONOLULU HI//FPA//

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SIPDIS

STATE FOR EEB/IFD/OIA, EB/ESC AND EAP/PMBS
DOE FOR TOM CUTLER
STATE PASS EXIM, OPIC, AND USTR
STATE PASS USAID FOR AA/ANE AND AA/G
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SUBJECT: Philippines Finally Sells TransCo for \$3.95 Billion

REF: a) MANILA 170 b) 06 Manila 1411

¶1. (SBU) Summary: With a bid of \$3.95 billion a Philippine/Chinese consortium won the fifth (and hopefully final) round of bidding for the 25 year concession to operate the Philippine National Transmission Company, TransCo, which operates the electric grid of the Philippines. The consortium must now obtain a franchise from the Philippine Congress in order to take over operations. Accusations of improprieties in the bidding process may complicate, but are ultimately unlikely to deter, congressional approval. This is a significant step in the important process of privatization and liberalization of the electric sector in the Philippines. End summary.

¶2. Only two bidders ultimately participated in the fifth round of bidding for TransCo. The Monte Oro Group/State Grid of China consortium won the round with a bid of \$3.95 billion. The other bidder, a Philippine/U.S./Malaysian consortium, bid \$3.905 billion, also beating the reported reserve price of \$3.8 billion.

Accusations of Corruption

¶3. As is usual in the Philippines, speculation about possible corruption or conflict of interest in the bidding process is widespread. Some accusations focus on the participation in the Monte Oro Group of Ricky Razon, the owner of port operator International Container Terminal Services and a strong supporter of President Arroyo, and Diosdado "Buboy" Macapagal, Jr., President Arroyo's brother. Muckrakers highlight the long-term business relationship between Razon and Jose Ibazeta, the official responsible for the privatization process. Other conspiracy theorists suggest that the bids are "too close to each other and to the reserve price, for comfort" and that they may have been negotiated among the bidders. (One participant told us that his company was offered such a deal during the fourth round.) One prospective bidder, disqualified for insufficient financial resources, has already filed a case against the government alleging bias in the process.

¶4. (SBU) Embassy has been in close contact with Texas Pacific Group which (via Newbridge Asia LLP) held a 35% share in the losing bidder. This consortium also participated in the fourth round, but ultimately did not bid in that round as bidding documents did not meet international standards and were not bankable. On December 4, Ambassador met with Ernie Bower, representative of Texas Pacific Group. Bower said the bidding document issues had all been resolved. On December 14, Bower told EconOff that the bidding process seemed to have been fair and open.

What Comes Next

¶5. (U) The government now has 30 days to review the winning bidder's documents to verify that the submission meets all technical requirements. The winner will then have to seek a franchise from Congress. Our contacts believe that Congress will grant the concession, but that numerous bribes will have to be paid in the process.

¶6. (U) If all goes well, the TransCo concession could be in private hands sometime in 2008. Much of the sales price will be used to retire TransCo debt, which stood at \$2.9 billion in September, 2007, though there will be a significant infusion of cash into the government's budget from the sale.

Background

¶6. (U) Four prior bidding rounds, including one in February 2007, failed to attract more than one bidder. The government brought in Jose Ibazeta from the private sector to head-up the power privatization process after the failure of the fourth round. His

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effort to bring bidding documents up to international standards and his road show in June 2007 netted interest by 19 potential bidders and the final sale.

¶7. (U) Five consortiums submitted bidding documents. One was disqualified due to lack of financial strength. A second consortium, accused of not meeting the 60% Philippine-ownership requirement saw its foreign partner, Terna S.p.A. of Italy, back out at the final hour. The third consortium cited discomfort with the auction conditions.

¶8. (SBU) Comment: Corruption allegations are to be expected in any major privatization in the Philippines. It is unlikely that we will ever know whether collusion took place in this bidding, or whether there were other irregularities. There is a consensus among Filipinos that Congress will get its share when the franchise comes before it. In any case, privatization of TransCo is yet another victory for free enterprise and sensible economic policy in the Philippines. Together with an increased pace in the privatization of generation assets, the sale of the grid brings more market power to bear in the electric sector. In the long run, this should lead to lower electric prices and more certainty of supply.

KENNEY